

National Security and
International Affairs Division

B-276807

December 22, 1997

The Honorable J. Dennis Hastert
Chairman
The Honorable Thomas M. Barrett
Ranking Minority Member
Subcommittee on National Security,
International Affairs, and Criminal Justice
Committee on Government Reform and Oversight
House of Representatives

DTIC QUALITY INSPECTED 2

This report is one in a series of reports on the Department of Defense's (DOD) secondary inventory management.¹ Over the past several years, we have issued a number of testimonies and reports that cite the management of defense inventory as a high-risk area.² As requested, this review assesses selected aspects of the Air Force's logistics system for managing inventory in a suspended status, that is, inventory that cannot be issued because its condition is unknown or in dispute. Specifically, this report addresses the (1) reported quantity and value of suspended inventory, (2) weaknesses in managing suspended inventory and their potential effect on logistics support costs and readiness, and (3) reasons why suspended inventory is not well managed. The scope and methodology of our work are described in appendix I.

Background

At the end of fiscal year 1996, the Air Force reported that it was managing inventory valued at \$29.3 billion.³ DOD uses a coding system to categorize the condition of its inventory. These codes are intended to indicate whether stored inventory is (1) issuable without qualification, (2) in need of repair, (3) usable for only a limited time, or (4) unrepairable and ready for disposal. DOD's inventory management goal is to achieve a cost-effective system that provides the inventory needed to maintain readiness. When items in DOD's inventory cannot be readily placed in one of these categories, DOD uses other condition codes to indicate suspended

DISTRIBUTION STATEMENT A

Approved for public release
Distribution Unlimited

¹See Related GAO Products at the end of this report.

²In 1990, we began a special effort to review and report on the federal program areas designated as high risk because of their vulnerabilities to waste, fraud, and abuse. This effort, which was supported by the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight, focused on problems that were costing the government billions of dollars. We identified DOD's secondary inventory management as a high-risk area at that time because of the high levels of unneeded inventory and the lack of adequate systems for determining inventory requirements.

³Although we and others have previously questioned the accuracy of DOD's and the Air Force's inventory reports, we cite them in this report to help reflect the magnitude of the inventory involved.

inventory. Because these codes do not indicate an item's usability, item managers must direct that the item be inspected or tested to determine its usability. The primary suspended inventory condition codes are as follows:

- J — inventory at storage warehouses that is awaiting inspection to determine its condition (hereafter referred to as material in inventory),
- K — inventory returned from customers or users to storage warehouses and awaiting condition classification (hereafter referred to as customer returns),
- L — inventory held at storage warehouses pending litigation or negotiation with contractors or common carriers (hereafter referred to as inventory in litigation),
- Q — quality-deficient inventory returned by customers or users due to technical deficiencies (hereafter referred to as quality-deficient inventory), and
- R — inventory returned by salvage activities that do not have the capability to determine the material condition (hereafter referred to as reclaimed inventory).

Appendix II contains a detailed explanation of DOD's supply condition codes.

Inventory categorized as suspended is not available for use until it has been tested to determine whether it is usable. In some instances, inventory in this category that has been found to be usable can meet customer needs, thus contributing to overall military capability. DOD recognizes that inventory in a suspended status for long periods can adversely affect the availability of resources and the effectiveness and economy of supply operations. To minimize the amount of items in suspended inventory, DOD set standards for the amount of time inventory should remain categorized as suspended. These standards consider the reason for suspending the inventory and the difficulty of determining the usability of the items. The time standards by suspension category are shown in table 1.

Table 1: DOD Time Standards for Resolving the Status of Suspended Inventory

Suspension code	Number of days
Material in inventory (J)	90
Customer returns (K)	10
Inventory in litigation (L) ^a	No specific time limit
Quality-deficient inventory (Q) ^a	No specific time limit
Reclaimed inventory (R)	180

^aAlthough no specific time limits have been set for inventory in litigation (L) and quality-deficient inventory (Q), DOD regulations emphasize that suspensions should not last indefinitely.

A number of organizations are involved in the management and control of suspended inventory. The Air Force Materiel Command (AFMC) administers the Air Force supply system and provides suspended inventory management policies and procedures. AFMC has five Air Logistics Centers (ALC) that are located in different regions throughout the United States.⁴ Within each ALC, item managers are responsible for maintaining the records for suspended inventory, initiating efforts to determine the usability of suspended inventory, deciding whether to procure items in addition to those in suspended status, and deciding whether suspended items should be returned to inventory or disposed. Suspended inventory is stored at warehouses operated and managed by the Defense Logistics Agency (DLA). These storage activities receive, store, and issue inventory and maintain inventory records.⁵ Once the usability of suspended inventory has been determined, storage activities reclassify the inventory as ready for issue, in need of repair, or ready for disposal.

Results in Brief

Significant management weaknesses exist in the Air Force's management of inventory that it categorizes as suspended. As a result, the Air Force is vulnerable to incurring unnecessary repair and storage costs and avoidable unit readiness problems. This situation exists largely because management controls are not being implemented effectively or are nonexistent.

Among DOD components, the Air Force reported the largest amount of suspended inventory—more than 70 percent of the \$3.3 billion of all DOD suspended inventory.⁶ In April 1997, the Air Force had 403,505 secondary items, valued at \$2.4 billion, in a suspended status. The Warner Robins Air Logistics Center had the highest reported value of suspended inventory, accounting for about \$1.3 billion (53 percent) of the Air Force's suspended inventory.

We reviewed 1,971 out of 60,575 items in suspension at Warner Robins. The vast majority of the suspended items we reviewed are not being reviewed in a timely manner. Of the 1,820 suspended items we reviewed

⁴In July 1995, the Defense Base Realignment and Closure Commission recommended that two of the five ALCs—Sacramento and San Antonio—be closed or realigned.

⁵DLA bills the Air Force for these functions and the storage space assigned to its items. The storage costs range from \$0.75 per square foot to \$7.17 per square foot depending on whether the items are in open or covered storage.

⁶We relied on DOD information systems during the conduct of our work. To the extent that DOD had not completed a reliability assessment of the data contained in those systems, analyses in this report are qualified. (See app. I for more details.)

with established standards, 97 percent failed to meet these standards. About 64 percent of the inventory that we reviewed had been in a suspended category for over 1 year, and some had been suspended for over 6 years. Delays in determining the usability of suspended inventory can result in increased logistics support costs and readiness problems. Warner Robins had over 2,000 unfilled customer demands (valued at about \$53 million) while similar items were in suspension. Over 500 of these unfilled demands (valued at about \$7 million) could have potentially been filled with these items. Two B-52H aircraft had not been fully operational for 175 days and 24 days because two \$16,000 data entry keyboards were not available for issue in the Air Force supply system, yet two such keyboards had been maintained in a suspended status for 2 years.

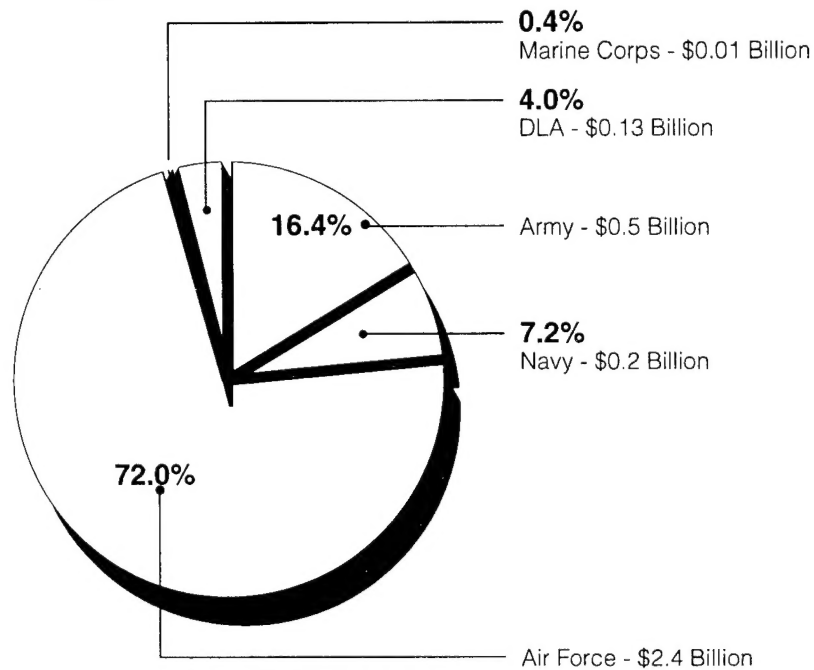
Management controls at Warner Robins over items categorized as suspended inventory have broken down and contributed to inventory being in a suspended status beyond established timeframes. Air Force Materiel Command guidance does not comply with DOD policy and safeguard against lengthy suspensions, and Materiel Command and Warner Robins oversight of inventory management has generally been nonexistent. Also, Warner Robins lacks clearly defined suspended inventory management procedures for, and sufficient emphasis on, controlling suspended inventory. Further, management of suspended inventory has not been identified in Air Force assessments of internal controls as a significant weakness, as provided in the Federal Managers' Financial Integrity Act of 1982.

Reported Value of Suspended Inventory Is Over \$3 Billion

DOD reported that about \$3.3 billion of secondary items was in a suspended status between April and June 1997.⁷ Figure 1 shows the distribution of the reported value of suspended inventory among DOD components.

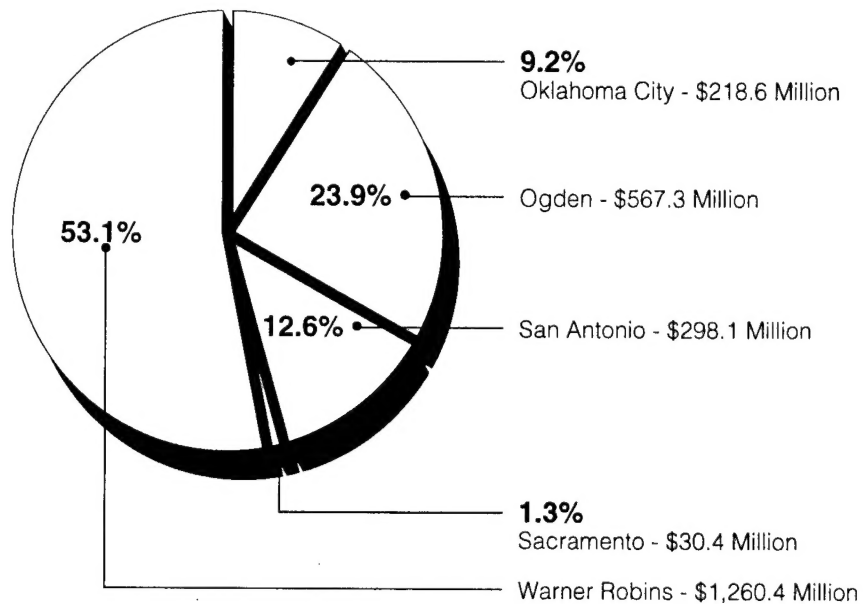
⁷We revalued the inventory at the latest acquisition cost by removing surcharges covering the costs to operate the supply system. The \$3.3 billion represents the revalued amount by removing the surcharge.

**Figure 1: Reported Value of
Suspended Inventory by DOD
Component**



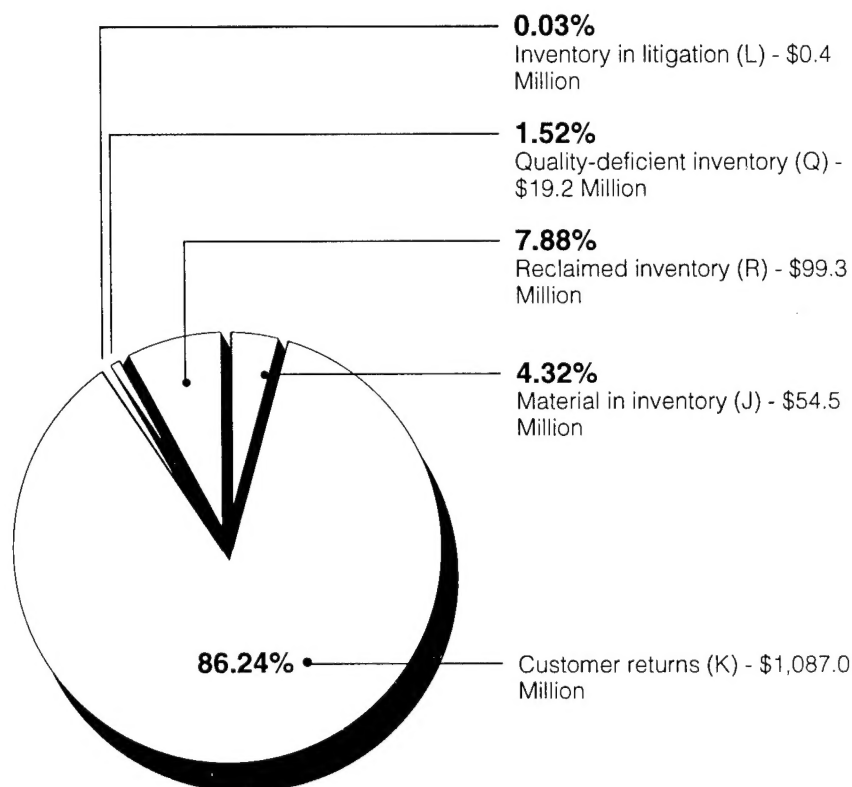
The Warner Robins ALC accounted for about \$1.3 billion (53 percent) of the Air Force's suspended inventory. Figure 2 summarizes the value of suspended inventory by ALC, and figure 3 shows the value of suspended inventory by condition code at Warner Robins. Appendix III contains additional details on the quantity and value of suspended inventory items.

Figure 2: Reported Quantity and Value of Suspended Inventory by ALC (as of Apr. 1997)



Note: Figures do not add due to rounding.

Figure 3: Reported Quantity and Value of Suspended Inventory Managed by the Warner Robins ALC (as of Apr. 1997)



Note: Figures do not add due to rounding.

Ineffective Management Can Increase Costs and Reduce Readiness

Significant management weaknesses exist for inventory categorized as suspended. The Air Force is not reviewing the status of these items in a timely manner and has miscategorized a significant amount of inventory. As a result, the Air Force is likely incurring unnecessary logistics costs and missing opportunities to support operational units' needs in a timely manner.

At Warner Robins, a substantial number of items failed to meet time standards for inspection. As a result, items that may have been needed for use in the supply system were not being considered for use. We reviewed 1,971 judgmentally selected suspended inventory items, valued at about \$67 million, to determine the length of time the inventory remained in a

suspended status. Of the 1,820 sample items with standards, valued at \$65.8 million, 1,757 items failed to meet the applicable DOD time standards. The remaining 151 sample items without time standards remained in suspension, with times ranging from 22 days to over 8 years. Figure 4 summarizes the number of sample items that met or failed to meet DOD time standards, and figure 5 shows the time items remained in a suspended status by suspension category. Appendix III contains specific details of our analysis.

Figure 4: Our Analysis of Suspended Inventory That Met or Failed to Meet DOD Time Standards

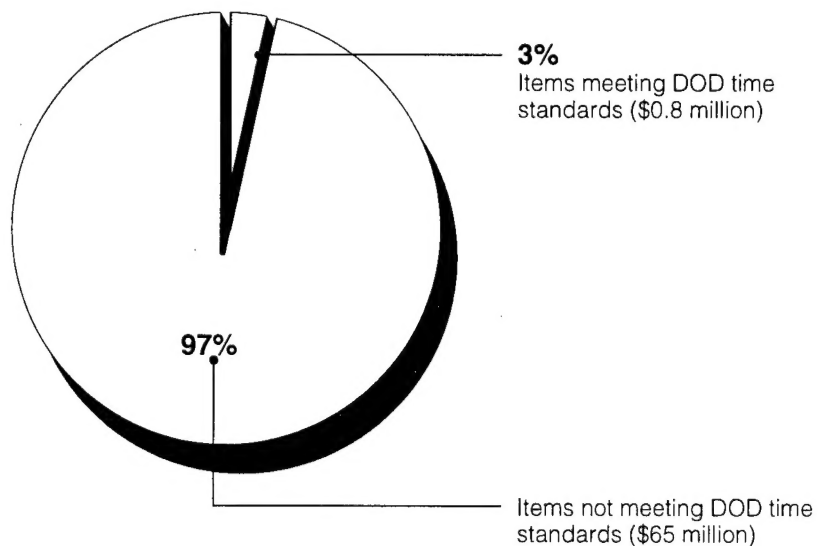
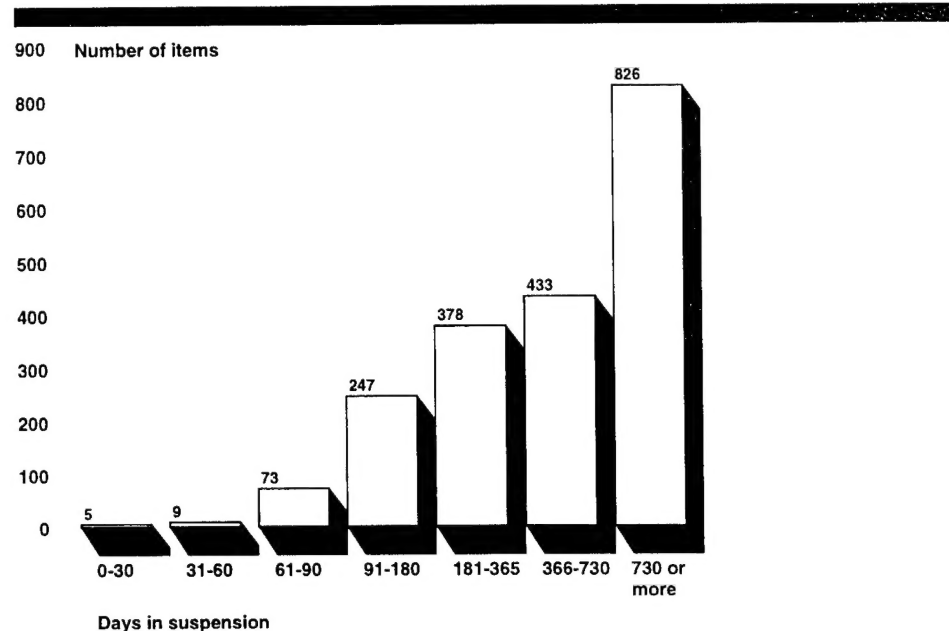


Figure 5: Our Analysis of the Time Items Remained Suspended



Timely Reviews of Suspended Inventory May Preclude Unnecessary Repairs

The Air Force may unnecessarily invest millions of dollars to send some inventory for repair when the need may have been met from inventory in suspension. Since Warner Robins was not making timely reviews of its inventory in suspension, usable items may have existed in that category that could have been used to meet supply system demands. Our review indicated that Warner Robins officials had improperly identified 3,418 customer return items, worth \$115 million, as inventory in need of repair. Because these items were improperly identified as needing repair, Warner Robins officials did not inspect them to determine their usability, which in turn meant that the Air Force may have incurred costs to repair other items when usable items were actually in suspension. We were not able to determine the value of these unnecessary repair costs.

Suspended Inventory Is Often Not Considered as a Way to Satisfy Critical Operational Unit Demands

Inventory managers have missed opportunities to fill orders with usable items because of the untimely handling of suspended inventory. As a result, suspended inventory is not available for use when needed by customers. When demands are made on the supply system and assets are not available to fill those demands, backorders result. For the suspended items in our sample, Warner Robins had over 2,000 concurrent backorders, worth about \$53 million. About 65 percent of these backorders were

essential to a weapon system's operation and thus adversely affected the system's ability to carry out all or portions of its assigned operational missions. If the duration of suspensions had been monitored and usability had been determined within a reasonable amount of time, over 500 of our sample items, worth about \$7 million, could have been used to fill some of the backorders, as shown in table 2.

Table 2: Number of Unfilled Customer Orders That Could Have Been Met With Suspended Items

Suspension code	Suspended items	Unfilled orders	Suspended items available to potentially fill orders
Material in inventory (J)	332	310	43
Customer returns (K)	12	138	11
Quality-deficient inventory (Q)	42	771	34
Reclaimed inventory (R)	639	871	413
Total	1,025	2,090	501

The following examples show how weaknesses in the management of suspended inventory can affect access to potentially usable inventory:

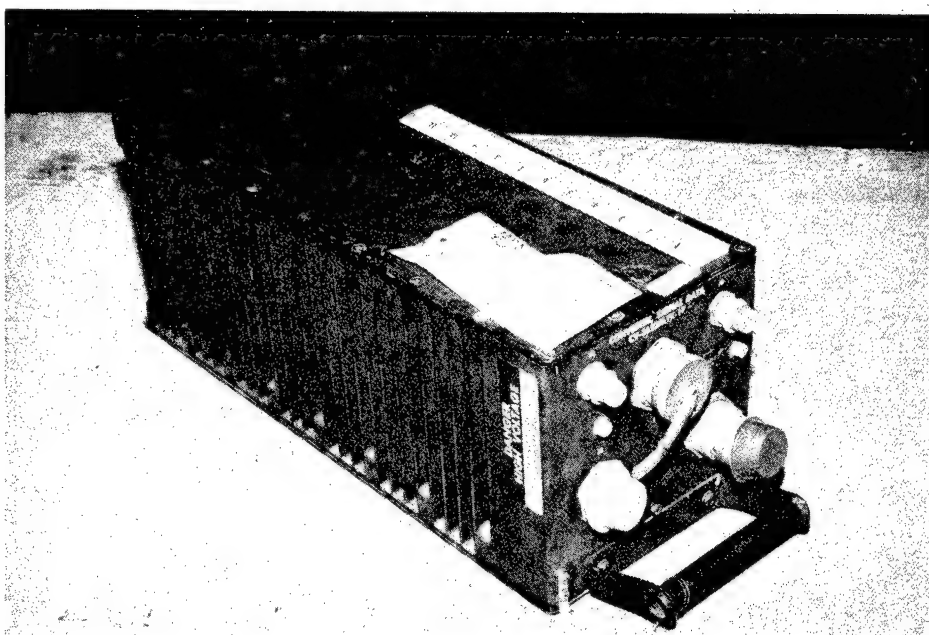
- Warner Robins had four data entry keyboards on backorder—two of which were classified as mission critical. The keyboards, valued at \$16,000 each, are used on B-52H aircraft. Warner Robins inventory records showed two keyboards (see fig. 6) had been suspended in reclaimed inventory for over 2 years. In August 1997, two B-52H aircraft were not fully operational (i.e., unable to fly portions of their missions) due to the unavailability of these keyboards. One aircraft had been unable to fly portions of its mission for 175 days and the other for 24 days. At the time of our visit, the item manager had not taken action to resolve the status of the keyboards.

Figure 6: Data Entry Keyboard in R Condition at the Warner Robins Warehouse



- Warner Robins had 11 signal converters on backorder—all of which were classified as mission critical. The converters, valued at \$36,000 each, are used on the B-52H aircraft. Warner Robins inventory records showed three converters (see fig. 7) had been in reclaimed inventory for 2 years, from June 1995 to June 1997. In June 1997, two B-52H aircraft were not operational (i.e., grounded and unable to fly any portion of their missions) due to the unavailability of these converters. One aircraft had been grounded for 33 days and the other for 6 days. After we brought this matter to the attention of Warner Robins officials, they informed us that testing would be performed on the three converters in reclaimed inventory to determine their potential use in satisfying backorders.

Figure 7: Signal Converter in R Condition at the Warner Robins Warehouse



Maintaining Unneeded Inventory Increases Storage Costs

Inventory that cannot be applied to any foreseeable need is declared excess and subject to disposal action. Warner Robins reported over 5,300 items on hand, worth over \$184 million, as excess for the sample items we reviewed. Prompt disposal of such unneeded items can reduce suspended inventory and reduce inventory holding costs. Maintaining inventory that is not needed is expensive and does not contribute to an effective, efficient, and responsive supply system. DLA and private industry organizations have previously estimated that holding costs ranged from less than 1 to 15 percent or higher of an item's inventory value. Although it is difficult to determine the precise costs to manage and maintain excess stocks, our review indicates that these costs would be millions of dollars each year.

Weak Management Controls Exist for Inventory in Suspended Categories

AFMC and the Warner Robins ALC lack adequate internal management controls over suspended inventory. A number of factors contributed to delays in resolving the status of suspended inventory and prolonged inventory suspensions. First, AFMC guidance hampers the proper identification, timely inspection, and prompt reclassification of suspended inventory. Second, Warner Robins lacks local policies and procedures that prescribe levels of responsibility and accountability for managing

suspended material. Third, AFMC and Warner Robins do not provide adequate oversight and monitoring of suspended inventory.

AFMC Guidance Results in Improper Classifications and Untimely Resolution

AFMC supplemental guidance enabled \$846 million of inventory in need of repair stored at Warner Robins to be improperly assigned to the customer returns suspension code, thus overstating the magnitude of the Air Force's and Warner Robins' suspended inventory. Although our review was limited to Warner Robins, the remaining four ALC's are also required to comply with the supplemental policy. Consequently, the magnitude of the suspended inventories at the other ALCs may also be overstated.

According to DOD policy, material returned in an unknown condition by a customer should be assigned to customer returns and reclassified within 10 days. AFMC supplemental guidance, on the other hand, states that two-level maintenance items returned for repair should be assigned to this same category.⁸ When we informed AFMC officials that both customer returns and repair items were commingled in the customer returns suspension code, one official acknowledged that items not in need of repair may not receive management attention. When we brought this same matter to the attention of Warner Robins officials, they told us that, in complying with the supplemental guidance, they assumed all items (including \$115 million worth of items in an unknown condition that were returns from customers) were in need of repair, and thus made no attempts to inspect and reclassify them. At Warner Robins, none of the 31 customer returns we reviewed met the 10-day DOD time standard; in fact, 17 of the customer returns had been suspended for over 1 year.

Waiver Guidance Raises Questions

DOD policy for managing reclaimed inventory states that these items should be reclassified in 180 days. AFMC supplemental guidance waives the standard because of a shortage of repair funds that hindered item managers' ability to schedule reclaimed inventory for inspection within the 180-day limit. However, waiving the standard exacerbates existing problems with lengthy suspensions. At Warner Robins, 99 percent of the 990 reclaimed inventory items we sampled remained suspended more than 180 days, and 62 percent of the inventory had been suspended over 2 years. Table 3 shows the number of reclaimed inventory items that had been suspended for more than 2 years.

⁸The Air Force has a three-level (organizational, intermediate, and depot) and a two-level (organizational and depot) maintenance concept to repair component parts. Under the two-level maintenance concept, broken parts that were previously repaired at the intermediate base maintenance level are now repaired at the depot level.

Table 3: Number of Sample Items in Reclaimed Inventory for Over 2 Years

Years in suspension	Number of items
2 to 3	597
3 to 4	10
4 to 5	4
Total	611

Warner Robins Lacks Suspended Inventory Procedures

Warner Robins lacks specific procedures for resolving the status of items, assigning responsibility for carrying out these procedures, and prescribing related accountability. Air Force policy indicates that ALCS are responsible for preparing comprehensive, explicit instructions essential to effectively manage inventory.

Warner Robins item managers and DLA warehouse personnel did not agree as to who within their organizations is responsible for resolving suspended inventory. Item managers told us that warehouse personnel are responsible for taking the necessary actions to monitor reclassification of suspended inventory because those personnel have physical possession of the material. Warehouse personnel told us that item managers must direct disposition of suspended material. Consequently, neither level assumed responsibility. When we pointed out the need for clearly defined responsibilities to Warner Robins top management officials, they told us that item managers are responsible for resolving suspended inventory issues and indicated that Warner Robins would begin drafting suspended inventory regulations for its item managers.

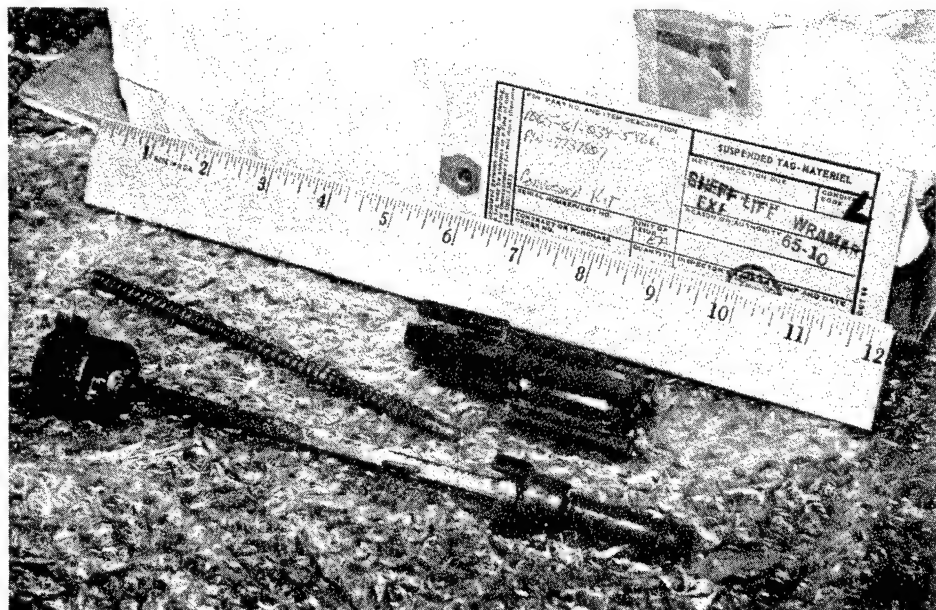
Suspended Inventory Reclassification Efforts Are Not Monitored

DOD policy requires periodic reviews of suspended inventory items to ensure that their usability is determined in a timely manner. However, this requirement is not carried out. For the majority of our sample items, the item managers could not tell us why the items had been suspended or who had directed suspension and could not easily determine how long the items had been suspended. Warner Robins officials told us they do not monitor the age of suspended inventory, even though DOD policy requires that monitoring be done to keep within prescribed time limits. Warner Robins officials stated that they did not regularly compile data on the quantity, value, or length of time material is suspended or report such data to AFMC because resolving suspended items' status was not a high priority. Further, AFMC officials told us that they have not monitored suspended inventory management since the late 1980s.

Adequate management oversight could have highlighted prolonged suspensions and indicated the necessity for routine monitoring of the quantity, value, and length of time items are suspended. If Warner Robins had monitored the duration of some suspensions, their usability could have been resolved within a reasonable time. For example:

- In May 1986, in anticipation of a patent infringement litigation, an item manager was instructed to retain records and files involving a supplier of M-16 rifle conversion kits for 20 years. At the time of our visit, one M-16 rifle conversion kit (see fig. 8) had been suspended for almost 9 years. An additional 985 kits were being held in an issuable condition, according to the item manager. Subsequent to our visit, we were informed that the item manager misinterpreted the retention instructions. Rather than just retaining the records and files, the item manager had also been unnecessarily holding all 986 kits. The item manager informed us that all 986 kits are excess and initiated action to dispose of them.

Figure 8: Conversion Kit in L Condition at the Warner Robins Warehouse



- According to warehouse records, one electron tube worth \$2,400 had been suspended in litigation for 362 days. The item manager did not know why

the item was suspended, who suspended the item, or when the item was placed in suspension. However, Warner Robins warehouse records showed that the tube had been returned by a customer because it was not the item requested from supply. When warehouse personnel realized that the serviceable item was being erroneously held in litigation, they reclassified the electron tube to an issuable condition.

- Four digital computers for the F-4G aircraft had been suspended in reclaimed inventory for over 4 years. According to the item manager, there has been little or no demand for the computers, valued at \$73,300 each, because in 1996 the F-4G aircraft was taken out of service. As a result of our findings, the item manager informed us that the digital computers would be recommended for disposal.

Suspended Inventory Management Weaknesses Have Not Been Identified in Financial Integrity Act Assessments

The Federal Managers' Financial Integrity Act of 1982 requires agency heads to assess their internal controls annually and report their findings to the President and the Congress. The Air Force provides its assessments to DOD for inclusion in the Secretary of Defense's report to the Congress.

We reviewed internal control assessments by Warner Robins, AFMC, and the Air Force to determine if the Air Force had reported suspended inventory management by ALCS as a material weakness and found that it had not. One criterion for determining whether an internal control weakness is material is if it significantly weakens safeguards against waste. The problems we identified demonstrate that suspended inventory management is vulnerable to waste and warrants special emphasis in future Financial Integrity Act assessments.

Conclusions

The management of DOD's inventory of spare parts and other secondary items has been considered a high-risk area for several years. Therefore, DOD's reported \$3.3 billion suspended inventory is a problem that warrants management attention. In terms of reported dollar value of suspended inventory, the Air Force represents the biggest problem among the services; within the Air Force, the Warner Robins ALC accounts for the largest share. At Warner Robins, we found significant weaknesses in its management of suspended inventory. Since there are standard policies for managing suspended inventory items across the ALCs and the weaknesses in the process contribute to some of the problems we identified, other ALCs may have similar problems. Air Force and DOD officials have generally stated, and our review confirmed, that ineffective management and delays

in determining the usability of suspended inventory can result in increased logistics and support costs and affect readiness.

At Warner Robins, (1) item managers generally were not complying with DOD standards for determining the usability of suspended inventory items, (2) about 64 percent of the items we sampled had been in the suspended category for more than 1 year and some longer than 6 years, (3) item managers were following AFMC guidance that does not comply with DOD and Air Force policy, (4) written procedures for controlling suspended inventory were lacking, and (5) management oversight of suspended inventory was limited. Further, neither Warner Robins nor the Air Force has identified suspended inventory as a material management weakness under the Federal Managers' Financial Integrity Act.

Recommendations

To improve the management of suspended items, we recommend that the Secretary of Defense direct the Secretary of the Air Force to ensure that, at Warner Robins (1) suspended inventory is properly identified, monitored, inspected, and classified within established DOD timeframes and (2) suspended items receive adequate visibility at all management levels, up to and including the service headquarters, through targeting suspended inventory problems as an issue for review in the Federal Managers' Financial Integrity Act assessments.

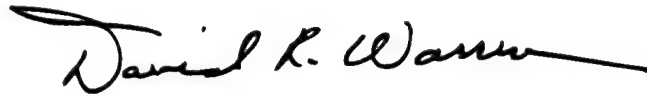
Also, we recommend that the Secretary of the Air Force direct Warner Robins ALC to establish explicit guidance on responsibility and accountability for resolving suspended inventory status, carry out necessary actions, and follow up to make sure that the actions have been promptly and correctly taken. Finally, we recommend that the Secretary conduct assessments of suspended inventory practices at the four other ALCs to determine the need for similar remedial actions and direct any affected ALC to take such actions.

Agency Comments

In written comments on a draft of this report, DOD agreed with our recommendations (see app. IV). DOD stated that on November 13, 1997, Air Force Headquarters provided guidance to the Air Force Materiel Command requesting a plan to correct deficiencies in managing suspended stock and initiate aggressive corrective actions. The plan is due to the Air Force by mid-December 1997.

We are sending copies of this report to other appropriate congressional committees, the Secretaries of Defense and the Air Force, and the Director of the Office of Management and Budget.

Please contact me at (202) 512-8412 if you have any questions concerning this report. Major contributors to this report are listed in appendix V.

A handwritten signature in black ink, reading "David R. Warren". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

David R. Warren, Director
Defense Management Issues

Contents

Letter	1
Appendix I Scope and Methodology	22
Appendix II Supply Condition Codes	24
Appendix III Additional Information on Suspended Material and DOD Time Standards	25
Appendix IV Comments From the Department of Defense	27
Appendix V Major Contributors to This Report	28
Related GAO Products	32
Tables	
Table 1: DOD Time Standards for Resolving the Status of Suspended Inventory	2
Table 2: Number of Unfilled Customer Orders That Could Have Been Met With Suspended Items	10
Table 3: Number of Sample Items in Reclaimed Inventory for Over 2 Years	14

Contents

Table III.1: Reported Quantity and Value of Suspended Material by ALC	25
Table III.2: Reported Quantity and Value of Suspended Inventory Managed by the Warner Robins ALC	25
Table III.3: Our Analysis of Sample Items that Met or Failed to Meet DOD Time Standards	25
Table III.4: Our Analysis of the Time Items Remained in a Suspended Status	26

Figures

Figure 1: Reported Value of Suspended Inventory by DOD Component	5
Figure 2: Reported Quantity and Value of Suspended Inventory by ALC	6
Figure 3: Reported Quantity and Value of Suspended Inventory Managed by the Warner Robins ALC	7
Figure 4: Our Analysis of Suspended Inventory That Met or Failed to Meet DOD Time Standards	8
Figure 5: Our Analysis of the Time Items Remained Suspended	9
Figure 6: Data Entry Keyboard in R Condition at the Warner Robins Warehouse	11
Figure 7: Signal Converter in R Condition at the Warner Robins Warehouse	12
Figure 8: Conversion Kit in L Condition at the Warner Robins Warehouse	15

Abbreviations

AFMC	Air Force Materiel Command
ALC	Air Logistics Center
DLA	Defense Logistics Agency
DOD	Department of Defense

Scope and Methodology

To quantify the number and value of the Department of Defense's (DOD) suspended inventory, we obtained computerized inventory records of inventory between April 1997 and June 1997 in suspended condition codes at all military services and Defense Logistics Agency (DLA) inventory control points. We removed surcharges covering the costs to operate the supply system, and we revalued the suspended inventory at the latest acquisition cost. These databases generate the records, statistics, and reports that DOD uses to manage its inventories, make decisions, and determine requirements. We did not independently verify the accuracy of the military services' and DLA's inventory databases from which we obtained data. Therefore, our report notes that these data are reported values.

With the use of the inventory records, we identified the Air Force and Warner Robins Air Logistics Center (ALC) as the DOD component and its inventory control activity with the highest reported dollar value of suspended items. At Warner Robins, we reviewed a judgmental sample of 1,971 suspended items (valued at \$67 million and representing 101 different inventory numbers). We excluded depot-level repairables suspended in the repair cycle process (M condition) from our review because this status is a normal condition for this type of material and the items are routinely considered as assets in the requirement computations of the inventory control activities. We also excluded suspended ammunition (N condition) because this inventory is held for emergency combat use.

We reviewed policies and procedures and obtained other relevant data related to suspended inventory management from officials at the DLA Headquarters, Alexandria, Virginia; Air Force Materiel Command, Wright-Patterson Air Force Base, Ohio; and Warner Robins ALC and Defense Distribution Depot, Georgia.

To determine the age of our sample items, we held discussions with item managers and reviewed storage activity data and inventory records. To learn whether issues associated with suspended items were promptly resolved and the reasons for delays in resolving the inventory status of suspended items, we reviewed Air Force and Warner Robins implementing guidance and assessments of internal controls. Such information provided the basis for conclusions regarding the management of suspended inventory. To determine if the Air Force had emphasized suspended inventory management as part of its assessment of internal controls, we reviewed assessments from Warner Robins for fiscal years 1993-97, Air

Force Materiel Command for fiscal years 1995-96, and the Air Force Headquarters for fiscal years 1993-96.

To assess the accuracy of data maintained for our sample items, we reviewed the results of several recent Warner Robins inventory accuracy assessments. To ensure the accuracy of inventory records for our sample items, we obtained additional evidence from Warner Robins item managers and warehouse personnel. Consequently, we are confident that our findings represent material conditions for the items we reviewed.

We performed our review between April and October 1997 in accordance with generally accepted government auditing standards.

Supply Condition Codes

Code	Title	Definition
A	Serviceable (issuable without qualification)	New, used, repaired, or reconditioned materiel that is serviceable and issuable to all customers without limitation or restriction.
B	Serviceable (issuable with qualification)	New, used, repaired, or reconditioned materiel that is serviceable and issuable for its intended purpose but is restricted from issue to specific units, activities, or geographical areas by reason of its limited usefulness or short service life expectancy.
C	Serviceable (priority issue)	Items that are serviceable and issuable to selected customers but must be issued before supply condition codes A and B materiel to avoid loss as a usable asset.
D	Serviceable (test/modification)	Serviceable materiel that requires test, alteration, modification, technical data marking, conversion, or disassembly, not including items that must be inspected or tested immediately before issue.
E	Unserviceable (limited restoration)	Materiel that involves only limited expense or effort to restore to serviceable condition and is accomplished in the storage activity in which the stock is located. The materiel may be issued to support ammunition requisitions coded to indicate acceptability of usable stock.
F	Unserviceable (reparable)	Economically reparable materiel that requires repair, overhaul, or reconditioning, including reparable items that are radioactively contaminated.
G	Unserviceable (incomplete)	Materiel requiring additional parts or components to complete before issue.
H	Unserviceable (condemned)	Materiel that has been determined to be unserviceable and does not meet repair criteria.
J	Suspended (in stock)	Materiel in stock that has been suspended from issue, pending condition classification or analysis, when the true condition is not known.
K	Suspended (returns)	Materiel returned from customers or users and awaiting condition classification.
L	Suspended (litigation)	Materiel held pending litigation or negotiation with contractors or common carriers.
M	Suspended (in work)	Materiel that has been identified on an inventory control record but turned over to a maintenance facility or contractor for processing.
N	Suspended (ammunition suitable for emergency combat use only)	Ammunition stocks suspended from issue except for emergency combat use.
P	Unserviceable (reclamation)	Materiel that is determined to be unserviceable and uneconomically reparable, as a result of physical inspections, teardown, or engineering decision, but contains serviceable components or assemblies to be reclaimed.
Q	Suspended (quality-deficient exhibits)	Quality-deficient exhibits returned by customers or users as directed by the Integrated Materiel Manager, due to technical deficiencies reported by Quality Deficiency Reports. (This code is for intra-Air Force use only.)
R	Suspended (reclaimed items awaiting condition determination)	Assets turned in by reclamation activities that do not have the capability (e.g., skills, personnel, or test equipment) to determine materiel condition. Actual condition will be determined before induction into maintenance activities for repair or modification.
S	Unserviceable (scrap)	Materiel that has no value except for its basic materiel content.

Note: Condition codes I, O, and T through Z are not assigned and reserved for future DOD assignment.

Source: DOD.

Additional Information on Suspended Material and DOD Time Standards

Table III.1 shows the reported quantity and value of suspended inventory items by ALC, and table III.2 shows this information specifically for Warner Robins ALC. Table III.3 shows the number of items in our sample that met or failed to meet DOD time standards, and table III.4 shows the number of items that were in a suspended status at the time of our review and the amount of time that the items were suspended.

Table III.1: Reported Quantity and Value of Suspended Material by ALC (as of Apr. 1997)

Dollars in millions		
ALC	Number of items	Value
Oklahoma City	26,900	\$218.6
Ogden	279,300	567.3
San Antonio	31,700	298.1
Sacramento	5,000	30.4
Warner Robins	60,600	1,260.4
Total	403,500	\$2,374.8

Table III.2: Reported Quantity and Value of Suspended Inventory Managed by the Warner Robins ALC (as of Apr. 1997)

Dollars in millions		
Suspension code	Number of items	Value
Material in inventory (J)	17,300	\$54.5
Customer returns (K)	38,800	1,087.0
Inventory in litigation (L)	100	0.4
Quality-deficient inventory (Q)	500	19.2
Reclaimed inventory (R)	3,900	99.3
Total	60,600	\$1,260.4

Table III.3: Our Analysis of Sample Items That Met or Failed to Meet DOD Time Standards

Suspension code	Time standard (in days)	Items meeting standard		Items not meeting standard	
		Number	Value	Number	Value
Material in inventory (J)	90	59	\$671,956	740	\$28,797,864
Customer returns (K)	10	0	0	31	687,000
Reclaimed inventory (R)	180	4	99,883	986	35,512,041
Total		63	\$771,839	1,757	\$64,996,905

Appendix III
Additional Information on Suspended
Material and DOD Time Standards

Table III.4: Our Analysis of the Time Items Remained in a Suspended Status

Suspension code	Number of days in suspension							Total
	0-30	31-60	61-90	91-180	181-365	366-730	730 or more	
Material in inventory (J)	4	1	54	208	303	103	126	799
Customer returns (K)	0	0	0	5	9	16	1	31
Inventory in litigation (L)	0	0	0	0	1	0	88	89
Quality-deficient inventory (Q)	1	8	19	30	2	2	0	62
Reclaimed inventory (R)	0	0	0	4	63	312	611	990
Total	5	9	73	247	378	433	826	1,971

Comments From the Department of Defense



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

04 DEC 1997

(LMDM)

Mr. David R. Warren
Director, Defense Management
and NASA Issues
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

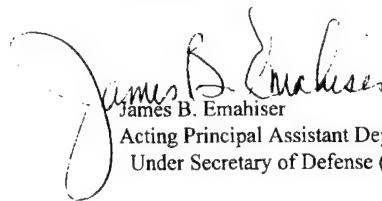
Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "DEFENSE INVENTORY: Inadequate Controls Over Air Force Suspended Stocks," dated October 28, 1997 (GAO Code 709254/OSD Case 1483).

The Department concurs with the report recommendations. On November 13, 1997, Headquarters United States Air Force provided guidance to the Air Force Materiel Command requesting a plan to correct deficiencies in managing suspended stock and initiate aggressive corrective actions. That plan is due to Headquarters United States Air Force by mid-December, 1997.

The Department appreciates the opportunity to comment on the draft report.

Sincerely,



James B. Emahiser
Acting Principal Assistant Deputy
Under Secretary of Defense (Logistics)



Major Contributors to This Report

National Security and
International Affairs
Division, Washington,
D.C.

Charles I. Patton, Jr.
Lawson (Rick) Gist, Jr.
James Murphy

Norfolk Field Office

Sandra F. Bell
Dawn R. Godfrey

Kansas City Field
Office

Robert C. Sommer

Related GAO Products

High-Risk Series: Defense Inventory Management (GAO/HR-97-5, Feb. 1997).

Defense Logistics: Much of the Inventory Exceeds Current Needs
(GAO/NSIAD-97-71, Feb. 28, 1997).

Defense Inventory: Spare and Repair Parts Inventory Costs Can Be Reduced (GAO/NSIAD-97-47, Jan. 17, 1997).

Logistics Planning: Opportunities for Enhancing DOD's Logistics Strategic Plan (GAO/NSIAD-97-28, Dec. 18, 1996).

1997 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-96-220, Sept. 18, 1996).

Defense IRM: Critical Risks Facing New Materiel Management Strategy
(GAO/AIMD-96-109, Sept. 6, 1996).

Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings (GAO/AIMD-96-94, Aug. 16, 1996).

Defense Logistics: Requirements Determinations for Aviation Spare Parts Need to Be Improved (GAO/NSIAD-96-70, Mar. 19, 1996).

Defense Inventory: Opportunities to Reduce Warehouse Space
(GAO/NSIAD-95-64, May 24, 1995).

Defense Supply: Inventories Contain Nonessential and Excessive Insurance Stocks (GAO/NSIAD-95-1, Jan. 20, 1995).

Army Inventory: Unfilled War Reserve Requirements Could Be Met With Items From Other Inventory (GAO/NSIAD-94-207, Aug. 25, 1994).

Air Force Logistics: Improved Backorder Validation Procedures Will Save Millions (GAO/NSIAD-94-103, Apr. 20, 1994).

Air Force Logistics: Some Progress, but Further Efforts Needed to Terminate Excess Orders (GAO/NSIAD-94-3, Oct. 13, 1993).